



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004
Telephone (515) 281-5834 Facsimile (515) 242-6134

For Immediate Release

February 6, 2012

Contact: Bernardo Granwehr, Auditor's Office, 515-242-5949

**State Auditor Vaudt Reviews Governor Branstad's
Fiscal Year 2013 Budget Proposal**

(Des Moines, Iowa) – Continuing in his role as the “Taxpayers’ Watchdog” and his duty to report directly to the people of Iowa on the condition of the state’s finances, State Auditor David A. Vaudt has completed his review of the Governor’s proposed Fiscal Year 2013 budget. Vaudt said, “While there are still areas for improvement, this budget proposal continues to build on the progress made last year in the areas of fiscal sustainability, transparency, and long-term planning.”

Budget Proposal Continues to Reduce Reliance on One-Time Resources

Auditor Vaudt has continually criticized the practice of shifting General Fund costs to one-time or limited-time resources because services are not sustainable when the one-time monies are depleted. The Fiscal Year 2011 adopted budget shifted nearly \$700 million of General Fund costs, creating a huge spending gap for Fiscal Year 2012 when many of the one-time monies went away. The Fiscal Year 2012 adopted budget reduced the reliance on one-time monies by \$544 million, or 71%.

Auditor Vaudt noted while there is still \$59 million of expenditure shifts occurring in the Governor’s budget proposal for Fiscal Year 2013, this represents an additional reduction in the reliance on one-time monies. Vaudt added, “The practice of shifting General Fund costs to one- time or limited-time sources has been nearly eliminated in this budget proposal. We’ve come a long way in a short period of time.”

Long-Term Planning Contributes to Reduced Spending Gap

The Governor’s budget proposal represents the amendment of the second year of a two-year budget adopted during the 2011 Legislative session. If implemented, the Governor’s proposal would reduce

the spending gap from \$764 million in Fiscal Year 2011 to \$139 million in 2013 – an 82% reduction. Vaudt said two factors led to the dramatic, two-year reduction in the spending gap – modest, 1.3% average annual spending growth in the face of 4% annual revenue growth. Vaudt said, “The Governor’s proposal builds on a long-term approach – an approach that takes into account the long-term sustainability of services instead of only thinking about the next year.” Vaudt added the proposed budget reflects a departure from past practices where State spending simply increased as revenues increased without regard for the spending gap or the long-term sustainability of expanding existing programs or creating new ones.

Concerns and Challenges Ahead

Auditor Vaudt noted increased salary and benefit costs are not funded in the Governor’s proposed budget, which means agencies will have to absorb the increased costs. This would be the fourth consecutive year salary costs were unfunded. The salary and benefit cost increases may be funded through unpaid leave days, layoffs and/or not replacing employees who leave. Auditor Vaudt said, “If this practice continues without offsetting agency efficiencies, these unfunded salary and benefit cost increases will significantly impact the level of service agencies can provide.”

There will be considerable pressure on revenues and spending in the coming years as a result of Federal actions. Vaudt noted, “If the Federal tax code remains unchanged, Iowa will feel the impact of expired income tax cuts, expired biodiesel and alternative fuel tax credits, and the expired AMT (Alternative Minimum Tax) patch. These will have a \$175 million negative impact on our state revenues in Fiscal Year 2014, and we must plan accordingly.” In addition, Federal health care changes will increase the number of Medicaid-eligible Iowans by 150,000, and the state will gradually take on up to 10% of the costs of serving these new recipients. Plus, the State currently receives approximately \$6 billion annually from the Federal government. Vaudt noted, “As the Federal government addresses its fiscal imbalance, Iowa can expect a decline in Federal support.”

In addition, Iowa’s pension system, IPERS, has seen its unfunded actuarial liability grow from \$327 million at the end of Fiscal Year 2000 to \$5.7 billion in Fiscal Year 2011 – a 1,643% increase. Vaudt noted the contribution rates to IPERS have increased over the past few years to partially address this issue. Vaudt said, “IPERS is only 80% funded today, versus 98% funded in 2000. Improving the funded status of IPERS has to be a priority in our long-term financial planning.”

####



**Auditor of State
David A. Vaudt**

***Comments on
Governor Branstad's & Lt. Governor Reynolds'
Fiscal Year 2013 Proposed Budget***

February 6, 2012

**State of Iowa
FY13 General Fund Budget
Governor's Proposal**

Remarks today will focus on—

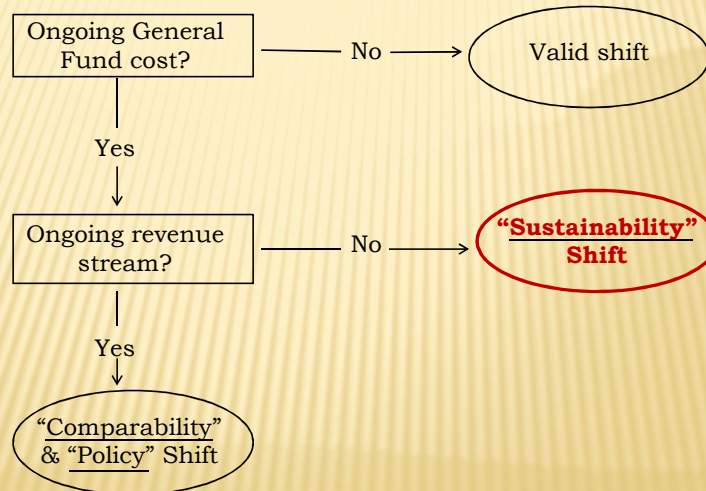
- “Expenditure Shifts 101” – A Refresher
- A Comparison of the Numbers – FY11, FY12, and FY13
- Concerns Noted
- Challenges Ahead

State of Iowa Expenditure Shifts

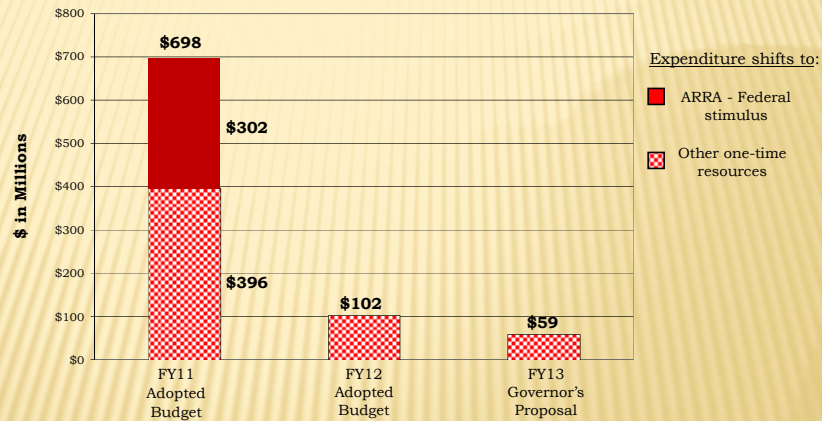
All expenditure shifts are not equal.

Sustainability vs. Comparability & Policy

State of Iowa “Expenditure Shifts 101” – A Refresher



State of Iowa FY13 General Fund Budget Expenditures – Sustainability Shifts

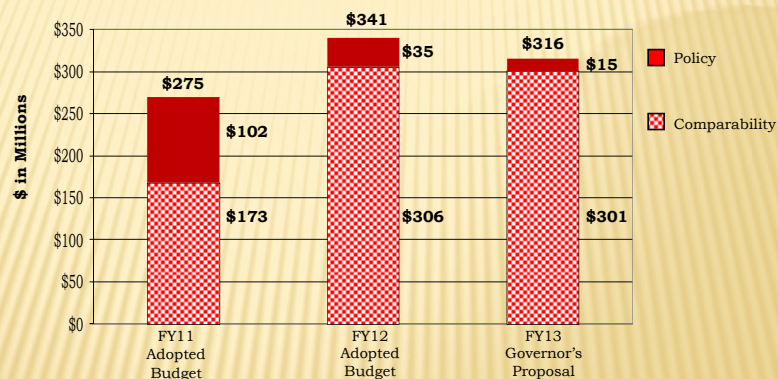


Iowa's #1 fiscal health issue—sustainability—was addressed in FY12 by significantly reducing reliance on one-time monies by \$596 million, or 85%. The Governor's FY13 proposal makes additional progress.

David A. Vaudt, Auditor of State, February 6, 2012

5

State of Iowa FY13 General Fund Budget Expenditures – Comparability and Policy Shifts



Policy shifts requiring “notwithstanding” language have been nearly eliminated. On the comparability front—transparency/ clarity—Iowa experienced a step backwards for FY12. This was primarily a result of the shift of \$106 million of tobacco tax from the General Fund to the Health Care Trust Fund beginning in FY12.

David A. Vaudt, Auditor of State, February 6, 2012

6

**State of Iowa
FY13 General Fund Budget
A Comparison of the Numbers
(\$ in Millions)**

	<u>FY11 Adopted Budget</u>	<u>FY12 Adopted Budget</u>	<u>FY13 Governor's Proposal</u>
Available ongoing revenues	\$5,533	\$6,226	\$6,481
True total expenditures	<u>6,297</u>	<u>6,446</u>	<u>6,620</u>
Spending gap	<u>\$ (764)</u>	<u>\$ (220)</u>	<u>\$ (139)</u>
Spending gap as a % of available ongoing revenues	<u>13.8%</u>	<u>3.5%</u>	<u>2.1%</u>

After reducing the spending gap by \$544 million, a 71% reduction, in FY12, the Governor's proposal further reduces the spending gap by \$81 million, a 37% reduction from FY12.

David A. Vaudt, Auditor of State, February 6, 2012

7

**State of Iowa
FY13 General Fund Budget
A Comparison of the Numbers - Revenues
(\$ in Millions)**

	<u>FY11 Adopted Budget</u>	<u>FY12 Adopted Budget</u>	<u>FY13 Governor's Proposal</u>
Available ongoing revenues	<u>\$5,533</u>	<u>\$6,226</u>	<u>\$6,481</u>
Revenue increase comparison:			
Amount	<u>\$ 29</u>	<u>\$ 693</u>	<u>\$ 255</u>
Percentage	<u>0.5%</u>	<u>12.5%</u>	<u>4.1%</u>

David A. Vaudt, Auditor of State, February 6, 2012

8

State of Iowa
FY13 General Fund Budget
A Comparison of the Numbers - Expenditures
(\$ in Millions)

	FY11 Adopted Budget	FY12 Adopted Budget	FY13 Governor's Proposal
True total expenditures	\$6,297	\$6,446	\$6,620
Underfunded school aid	156	—	—
Adjusted comparison	<u>\$6,453</u>	<u>\$6,446</u>	<u>\$6,620</u>
Spending increase (decrease) —adjusted comparison:			
Amount	<u>\$313</u>	<u>\$ (7)</u>	<u>\$174</u>
Percentage	<u>5.1%</u>	<u>(0.1)%</u>	<u>2.7%</u>

When FY11 is adjusted for underfunded school aid, spending growth in FY12 and FY13 combined is only \$167 million—an average of 1.3% per year.

David A. Vaudt, Auditor of State, February 6, 2012

9

State of Iowa
FY13 General Fund Budget
A Comparison of the Numbers – Spending Gap
(\$ in Millions)

FY11 Spending gap

FY12: Available ongoing revenues increase 693
FY11 School aid not funded (156)
True total expenditures decrease 7

\$(764)

71%
reduction

FY12 Spending gap

FY13: Available ongoing revenues increase 255
True total expenditures increase (174)

(220)

37%
reduction

FY13 Spending gap

\$(139)

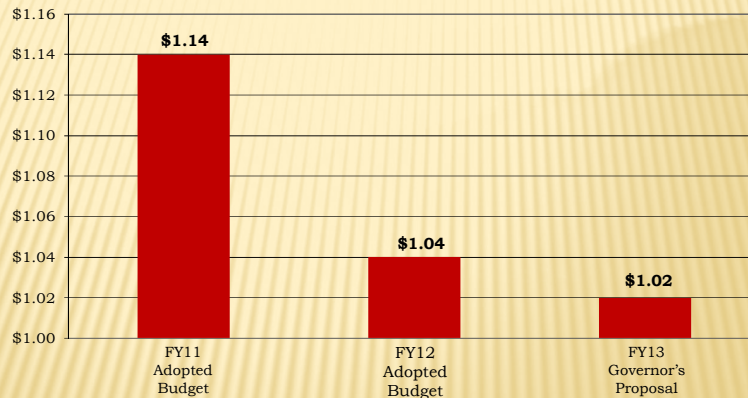
Controlled spending growth in FY12 and FY13, coupled with revenue growth, has substantially reduced Iowa's spending gap.

David A. Vaudt, Auditor of State, February 6, 2012

10

State of Iowa FY13 General Fund Budget Spending Sustainability

For every dollar of available ongoing revenues, Iowa is spending:



By decreasing Iowa's reliance on one-time monies, Iowa's spending decreased from \$1.14 to \$1.02 per \$1.00 of available ongoing revenues in just two years. This continued sustainability improvement is commendable.

David A. Vaudt, Auditor of State, February 6, 2012

11

State of Iowa FY13 General Fund Budget Concern - REC Revenue Estimates (\$ in Millions)

	FY11	FY12	FY13
REC revenue increases:			
12/10 est. v. 12/11 est.	<u>1.6%</u>	<u>(0.7%)</u>	<u>N/A</u>
FY11 v. FY12 v. FY13 (12/11 est.)	<u>6.3%(B)</u>	<u>3.5%</u>	<u>4.1%</u>
FY11 v. FY13 (12/11 est.)	<u>N/A</u>	<u>N/A</u>	<u>7.8%</u>
FY10 v. FY13 (12/11 est.)	<u>N/A</u>	<u>N/A</u>	<u>14.6%</u>
REC revenue estimates (A):			
Dec. 2010 estimate	<u>\$5,807</u>	<u>\$6,151</u>	<u>N/A</u>
Mar. 2011 estimate	<u>\$5,855</u>	<u>\$6,098(C)</u>	<u>N/A</u>
Oct. 2011 estimate	<u>\$5,899(B)</u>	<u>\$6,081(C)</u>	<u>\$6,315(C)</u>
Dec. 2011 estimate	<u>\$5,899(B)</u>	<u>\$6,106(C)</u>	<u>\$6,358(C)</u>

(A) Not adjusted for 99% expenditure limitation.

(B) Actual FY11.

(C) Adjusted for \$106 million tobacco tax deposited in Health Care Trust Fund beginning in FY12.

David A. Vaudt, Auditor of State, February 6, 2012

12

**State of Iowa
FY13 General Fund Budget
Concern – Carry-forward Balances and the Risk**

	FY12 Adopted <u>Budget</u>	FY13 Governor's <u>Proposal</u>
Excess monies from Economic Emergency Fund	<u>\$284</u>	<u>\$285</u>

One-time monies should be used for one-time expenditures. Considering these carry-forward balances, which are one-time monies, as a resource to pay ongoing General Fund expenditures creates the risk of repeating Iowa's past mistakes. The Governor and the Legislature should consider alternatives to prevent the consequences of using carry-forward balances for ongoing expenditures.

David A. Vaudt, Auditor of State, February 6, 2012

13

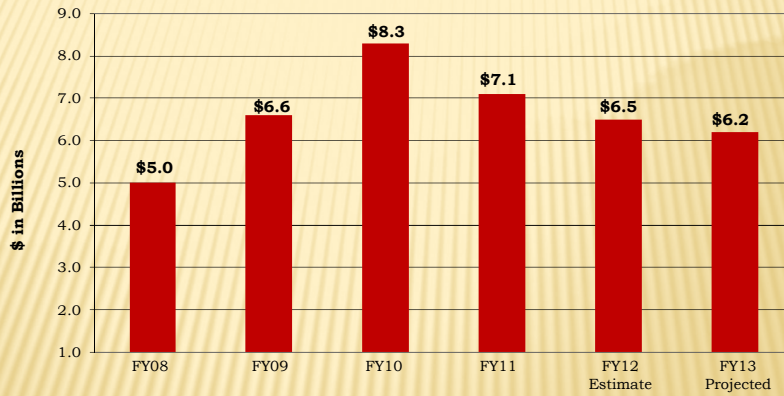
**State of Iowa
FY13 General Fund Budget
Other Concerns**

- Salary and benefit cost increases not funded – 4th consecutive year agencies have had to absorb increased costs (\$80 million in FY13).
- Department of Corrections increased staff and other costs for new community-based correctional facilities and Mitchellville and Fort Madison prisons not funded (\$19 million in FY13).

David A. Vaudt, Auditor of State, February 6, 2012

14

State of Iowa FY13 General Fund Budget Challenges Ahead – Federal Monies

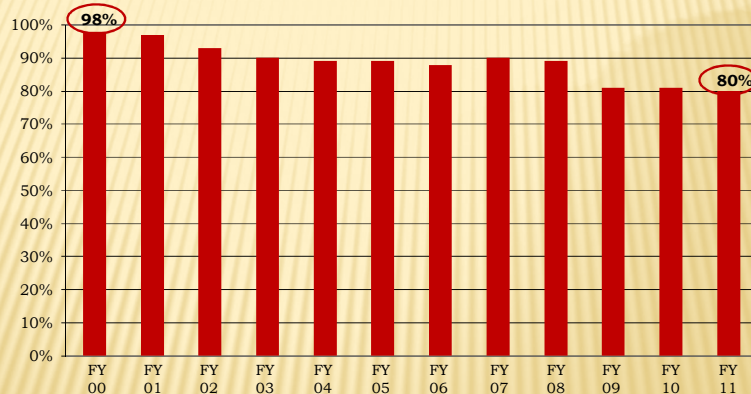


Iowa relies heavily on Federal monies to support many of our General Fund services, like Medicaid. As the Federal government addresses its fiscal imbalance, Iowa can anticipate a decline in Federal support.

David A. Vaudt, Auditor of State, February 6, 2012

15

State of Iowa FY13 General Fund Budget Challenges Ahead - Pensions IPERS Percentage Funded 2000 through 2011



The IPERS unfunded actuarial liability as of June 30, 2000 was \$327 million—that liability has grown to \$5.7 billion at June 30, 2011.

David A. Vaudt, Auditor of State, February 6, 2012

16

**State of Iowa
FY13 General Fund Budget
Other Challenges Ahead**

- The Federal tax cuts expire, which when coupled with the other Federal tax changes, will negatively impact Iowa revenues—a net \$75 million reduction in Iowa revenues is already included in FY13, with an additional net reduction of \$175 million for FY14.
- With the Federal health care changes, more Iowans will be eligible for Medicaid—it is estimated an additional 150,000 Iowans will become Medicaid eligible, and the State will gradually take on 10% of the cost of these new Medicaid recipients.